



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

May 16, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN R. BLOCK

SUBJECT: Status Report on PIK Program

Background

- o Worsening farm surpluses caused by record crops, weak demand due to recession, farm price supports above market-clearing levels, and strength of dollar abroad.
- o At end of 1982/83 season, stocks of wheat, corn, cotton, and rice estimated to exceed generally accepted carryover needs by 50 to 150 percent.
- o Rising stocks resulted in sharply lower commodity prices, depressed farm incomes and rising government program expenditures for price and income support for farmers (from \$4.0 billion in FY 1981 to \$11.6 billion in FY 1982 and projected \$21 billion for FY 1983).

Aims of PIK

- o Reducing production and stocks at the same time.
- o Ensuring adequate market supplies.
- o Minimizing direct government outlays in support of agriculture.
- o Improving conservation practices.
- o Increasing farm incomes.
- o Helping to ease storage problems.

Major Features of the PIK Program

- o Farmers must participate in acreage reduction and land diversion programs previously announced for 1983 crops.
- o In addition, farmers may idle 10-30 percent of crop acreage in return for payments-in-kind.

- o Some farmers were permitted to bid out all crop acreage in return for PIK.
- o Payments are 95 percent of usual yield for wheat, 80 percent for cotton, rice, corn, sorghum.
- o Idled acreage must be placed in an approved conserving use -- generally a cover crop such as grass or legumes.

Effects of PIK on the Farm Sector

- o 83 million acres, or about 36 percent, of the acres eligible for the land retirement program will be idled this year.
- o Surplus stocks will be drawn down sharply though not as much as the acreage reduction would imply. Ending grain stocks for 1983-84 are projected at 115.9 million metric tons (mmt.) compared to 152.6 mmt. at the end of the current year.
- o Prices should strengthen somewhat. Wheat price is projected at \$3.50-3.75 per bushel, up 3 percent from the current year. Corn price is projected at \$2.65-2.90 per bushel, up 5 percent from the current year.
- o Feed costs will rise somewhat, encouraging producers to cut back on livestock production. Smaller livestock supplies are likely to mean higher livestock prices.
- o Net farm income is expected to be \$18 to \$22 billion in 1983, about the same as last year, but approximately \$3 billion higher because of PIK.
- o More farmers will stay in business at least a year or two longer.

Effects on Related Sectors

- o PIK will have little or no effect on food prices in 1983, but will cause about a 1 percent additional increase in 1984.
- o Pronounced adverse impact on input industry sales (fertilizer, seeds, machinery) in the near term. In the long term, a financially stronger farm

sector should have a positive impact on input industries. The value of stocks of many input supplies went up after the announcement of a large sign-up.

- o Lenders should benefit from farmers' improved cash flow and reduced borrowing for production expenses.
- o Local employment may be affected, but little overall national impact (1/20 of 1 percent).
- o PIK has provided a big psychological lift to rural America -- there is hope where once we could see only despair.

Effects on Federal Budget

- o PIK is estimated to reduce outlays for commodity support programs by \$2.7 billion in FY 1984. If PIK is continued for the 1984 crops, outlay savings should total \$9.0 billion in FY 1983-86. (These are the latest estimates of savings using the same two-year PIK program assumptions that were contained in the January budget for FY 84).
- o The FY 1984 budget also proposed to hold income support (target) prices for the 1984 and 1985 crops at the 1983 level. This would require a change in the current legislation, which increases target prices each year. Savings in outlays from holding the line on target prices is estimated at \$3.8 billion for FY 1984-86. This would be in addition to the outlay savings from implementing PIK. Moreover, this policy change is needed so as to not encourage farmers to produce more when we offer programs to cut-back.
- o The book value of commodities distributed under PIK is \$7.5 billion for the 1983 crop. Should PIK be continued for the 1984 crops, the estimated book value of the commodities distributed would be roughly an additional \$4.3 billion.

Problems in Implementing PIK

- o Implementation of PIK is not easy. It involves payment with commodities which is obviously more difficult than with cash. We expect patience on the part of farmers and will get the job done.

Future PIK Programs

- o USDA believes it is likely that a PIK program will be necessary for the 1984 crop of wheat -- perhaps a smaller and more simplified program will lower rates of in-kind compensation. Because of the late announcement of the 1983 PIK, many winter wheat producers did not participate in the program. The weather has been good for wheat production to date, and therefore a large crop and carryover (average 1.5 billion bushels) is expected putting downward pressure on prices. It is too early to contemplate 1984 crop programs for the other commodities since they will not be planted for another year.